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Reseller Permits Lead to Increased Taxable Building Supply Sales

OLYMPIA – August 30, 2010 – An estimated \$24.4 million in additional state and local sales taxes have been reported by the construction industry alone since Washington shifted to a more tightly controlled reseller permit system in January.

A higher percentage of businesses are paying sales tax on construction materials since the state eliminated self-issued resale certificates. Those certificates allowed a business to not pay sales tax if it declared the tax would be collected when the product was resold to the final consumer. Not all such products were resold, however, and the state estimated it was losing up to \$100 million annually due to misuse of resale certificates across all industries.

The Legislature in 2009 authorized the Department to replace the resale certificate system with Department-issued reseller permits that were provided to about a quarter of the 800,000 registered businesses that previously could use resale certificates.

Preliminary results for the first five months of 2010 are encouraging, Revenue Director Cindi Holmstrom said. Other industry sectors are being reviewed to ascertain the effect of the new system, she said.

“We are encouraged by initial indications that the reseller permit transition is having its desired effect of increasing the proper payment of retail sales tax on building materials,” Holmstrom said. “Collaboration with the business community was crucial to the successful implementation of this new system.”

She noted that from January through May, the ratio of taxed retail sales to untaxed wholesale sales for “Construction Sand and Gravel Mining” went up 26 percent while the ratio for “Veneer, Plywood, and Engineered Wood Product Manufacturing” increased 129 percent.

“The education process for this program was probably the biggest benefit. Just informing businesses about appropriate uses for the reseller permit was very beneficial,” said Amber Carter, the governmental affairs director for Tax & Fiscal Policy with the Association of Washington Business.

“We couldn’t have asked for anything better as far as wanting the Department of Revenue to hear and understand our viewpoints, consider our suggestions, and take time to communicate its views and the constraints it had to operate under. It really was a two-way effort,” said Rick Slunaker, government affairs director for the Associated General Contractors of Washington.

Vendors are required to collect sales tax when selling products to customers, except when a reseller permit or other exemption certificate is presented. Wholesalers and other businesses can now instantly check their customers’ reseller permit status by clicking *Verify a customer's reseller permit* at <http://dor.wa.gov>.

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